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national farmers union

In Union is Strength

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Submission

to the

Standing Committee on External Affairs
and International Trade

on the subject of the

Canada-U.S. Free Trade Agreement

presented

awa, Ontario November 5, 1987

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Canada and the United States negotiators and politicians have signed a preliminary document setting out the essential elements of a Free Trade Agreement. It raises many more questions than answers and in its reading, much is left to speculation and interpretation on its possible impact.

What is clear is that this proposed agreement represents a great deal more than a simple proposal to end tariffs on the movement of goods and services between our two countries.

Tariffs between our two countries are no longer a major factor. Currently about 65% of U.S. industrial exports enter Canada duty-free and a further 25% with a 5% or less tariff level. Canada has had a form of sectoral free trade in agricultural implements for many years. We have and must continue to trade with the U.S. The question is: "How far should this relationship, from Canada's perspective, be encouraged?"

Some major differences between our two countries must be considered.

1. Canada is much more trade dependent than is the U.S. About one-third of Canada's total production of goods and services is exported compared to 10% of total U.S. production.

2. Approximately 80% of Canada's exports were shipped to the U.S. in 1985, which accounted for 18% of total U.S. merchandise imports.

3. About 22% of U.S. exports were shipped to Canada in 1985, representing 71% of our total imports.

4. In 1985, 27% of our agricultural exports were destined to the U.S. market.

5. Currently between 60-70% of Canadian manufacturing is owned by U.S. interests.

These basic facts confirm that we are already integrated into the U.S. economy in a substantial way. From an agricultural perspective, Canada still maintains a relatively high international trading profile, mainly as a result of our grain exports. The free trade proposal is intended to expand our total dependence on the U.S. market more than is already the case. We have strong reason to believe that in this further integration of our economies, Canadian agriculture will come off second-best.

U.S. politicians appear to understand that our farmers will not be winners in a free trade agreement. Considering Canada's apparent reluctance to put agriculture on the bargaining table, Agriculture Canada briefing papers are, in our view, less than forthright in their interpretation of the issues.

In a review of major free trade issues by the Northeast-Midwest Congressional Coalition (May 19, 1987), a Coalition briefing document states:

> "Canada's heavy reliance on the U.S. market for agrifood exports should logically induce them to seek negotiations to gain assured and improved access to the U.S. market. Canada, however, is reluctant to bring agriculture into the trade talks, while the U.S. is insisting on its inclusion. There are several reasons for Canada's reluctance. Canadian agriculture is more export driven than the U.S., meaning more is at stake. About 50 percent of Canada's farm and food products are exported, compared to 20 percent for the U.S. and the European Community. In addition, the potential benefits gained from improved access to the U.S. market for Canadian farm products are less tangible and more speculative than the predictable negative effects resulting from removing support programs. The drawbacks include lower prices, profits and asset values, as well as the loss of some control over markets enjoyed by producers. And finally, Canada's agricultural sector will require more wrenching adjustments under a trade agreement because it currently enjoys greater protection."

The Coalition document relies on Canadian economists, T.K. Warley and R.R. Barichello, to outline Canada-U.S. agricultural policy differences as follows:

- Overall higher level of intervention and regulation and less resolve to move toward more market-oriented system;

- Distinctly higher levels of support for dairy, poultry, horticultural, and red meats;
- Broader commitment to stabilize producers' returns for a wider range of products and to share the down-side marketing risks with farmers;
- More extensive use of explicit supply management techniques involving formula pricing and farm-level quotas;
- Deeper commitment to "orderly marketing" agencies and provincial commodity boards;
- Active involvement of provincial governments in operating their own food sector assistance and development programs, which results in making them equal managing partners with the federal government.

With respect to the final point, the document states:

"The U.S. is concerned that any agreement reached between the U.S. and Canadian federal governments be legally binding against Canadian provinces."

The document takes particular note of the role of the Canadian Wheat Board as the sole exporter of wheat, oats and barley and that it restricts trade in these grains by limiting the number of import permits granted. It noted that the C.W.B. maintains a two-price system for domestically-consumed and exported wheat and states: "This system is incompatible with a free trade agreement."

As we now know, C.W.B. import licensing on wheat, oats and barley has been bargained away, as has the domestic price for wheat. But the document further targets programs which subsidize grain including the Western Grain Stabilization Act, deficiency payments, crop insurance and the Crow benefit payments. It adds:

"Removing freight subsidies would mean a much larger portion of Canadian grain would likely be shipped to export markets by way of the U.S. barge system (especially on the St. Lawrence Seaway) and by U.S. rail. It also would likely increase U.S. exports of feed grains, primarily corn to eastern Canada."

Exactly where producers will come out on these programs when all the smoke has cleared in 10 years' time is very much in doubt. The U.S. Congressional document in targeting the licensing practices of the C.W.B. suggests: "One possibility is to replace the C.W.B. with a bilateral board to oversee North American exports and imports of grain."

By removing the C.W.B.'s import licensing, the emasculation process has already begun. In the light of the U.S. government's

ability to gain concessions, we anticipate continuing efforts to integrate our grain economy with their own. That would enable the U.S. to move into our grain export markets more aggressively than it has already done in spite of the undertaking that:

"Each Party has agreed to take into account the export interests of the other Party in the use of any export subsidy on agricultural goods exported to third countries..."

Through U.S. eyes, our export interests apparently do not include India, China and the U.S.S.R.

The preliminary Free Trade Agreement "agreed to eliminate its Western Grain Transportation Act subsidies on agricultural products shipped to the United States through Western Canadian ports. This will affect primarily Canadian exports of millfeeds and rapeseed meal to the U.S. Pacific Northwest."

There are several implications to this section.

It is not rational to assume that only exports of millfeeds and rapeseed meal shipped to the Pacific Northwest will be exempted from the W.G.T.A. In the 1985-86 crop year, the C.W.B. sold 270,000 tonnes of wheat to the U.S., presumably at the current depressed world price, largely established by the U.S. We submit that when the subsidy levels between the two countries are considered "equal", the W.G.T.A. payments will be bargained away as well.

The Agriculture Canada briefing document refers to West Coast ports. The Agreement refers to Western Canadian ports. We submit there is a distinct difference. Thunder Bay could be considered to be a Western Canadian port.

The document refers to affecting "primarily Canadian exports of millfeeds and rapeseed meal to the U.S. Pacific Northwest" - but not exclusively. Exceptions are implied by the language. What are they? Where will the next concession be made?

The implication for removal of W.G.T.A. Crow benefit payments on millfeeds and rapeseed meal point quite clearly in the direction of lower prices to farmers for feed grains and rapeseed if the processors

hope to remain competitive in the U.S. market.

We strongly believe the functions of our supply management boards will be eroded to the point of serving primarily administrative functions in allocation, marketing and quality control of products.

We were assured that marketing boards were not on the table - and this may well have been so. In the mind of Daniel Amstutz, U.S. undersecretary for international affairs, the objective of seeking "sweeping fundamental changes" was supported by his statement: "The concept of marketing boards is not on the table. <u>How they function is on the table</u>." (Globe & Mail, January 28, 1987)

The initial result of negotiations can now be assessed. They increased import quotas of chicken and most chicken products to <u>7.5</u> percent of domestic production for each year after the commencement of the agreement on January 1, 1989. Turkey and turkey products will be increased to <u>3.5</u> percent and eggs in its various forms to <u>2.988</u> percent. These levels represent the average of the past 5 years, eliminating the lowest and highest years, however, it also means that our producers will lose opportunity to expand production by similar amounts.

It can be assumed that prices of these imported products will be considerably below Canadian prices. Processed products from the U.S. will have easier access as a consequence of tariff removal. While Canada has retained the right to add these products to an import control list, past experience dictates that such actions are invoked reluctantly and often not implemented until considerable economic damage has been experienced. <u>The removal of tariffs on these products will automatically mean that supply-management boards will have to lower producer prices</u>. <u>The U.S. will become the price setter on supply-managed products</u>.

Horticultural and dairy products will fare no better. Tariffs on yogurt and ice cream are to be phased out. While these products are to be added to the import control list, at what point and who will decide when imports reach the level that they undermine the supply-management program? Certainly they are likely to be priced at less than Canadian products. In order to compete, Canadian yogurt and ice cream prices may have to be reduced. That in turn will complicate

the price-setting functions of milk marketing agencies and result in lower returns to producers.

With respect to supply-managed products, we are told new rules will be drawn up over the next five years to govern subsidies and countervailing duties. It is logical to assume that subsidies will be reduced and countervailing duties made more difficult to impose. The impact to Canada's supply-managed programs is predictable. Quite clearly, U.S. demands to negotiate our subsidies will restrict the ability of the Canadian government to as easily control the stable production of supply and equitable distribution thereof. Does it represent a compromise of sovereignty? We believe it does.

In the meanwhile, the U.S. countervail on Canadian hog exports remains. Red meat exports to the U.S. have been presented as a major plus factor in a free trade agreement. The primary advantages Canadian producers currently have in red meat exports to the U.S. are low feed grain prices and a devalued exchange rate on the Canadian dollar. Should the dollar exchange rate narrow appreciably, much of the advantage will evaporate. The same condition would apply to the export of potatoes, particularly in the Maritime provinces.

Secure access of red meats, livestock and other farm products to the U.S. market is not guaranteed since such exports are still subject to possible domestic anti-dumping and countervailing duty laws. The binational disputes-settling panel, effective after January 1, 1989, would replace the judicial review process in both the U.S. and Canada "to determine if an investigating authority of either party made a decision not in accordance with its law". It does not act as the initial ruling body on the validity of any anti-dumping or countervailing duty applications filed with either government.

While it may be argued that anti-dumping and countervail under this arrangement may not be invoked as frequently as now is the case, we cannot at the same time ignore that the U.S. is gaining more secure access to our market as well. It is the only party to the agreement that has been accorded guaranteed market shares - for chicken, turkeys and eggs.

In summary, we believe the proposed Free Trade Agreement

will, on balance, have a serious negative impact to the farm sector. Many of our institutional bodies structured to specifically serve the domestic market will not survive in their present form. The bottom line to producers will be lower prices for farm products. This will come at a time when many of the economic ills in the farm community can be linked to the destructive and predatory trading practices of the U.S. and E.E.C. countries. These practices will not end through the signing of this agreement.

The U.S. is the most protective nation in the world. Soon it will pass a new omnibus trade bill that will apply also to this country - in spite of a bilateral agreement - if the occasion warrants.

We gain a strong sense from the agreement that it is primarily Canada that is being required to conform to U.S. laws and regulations - that it is our marketing institutions and subsidies that must adjust if we wish to deal with the U.S. There is a tinge of coercion and blackmail about this deal that does not sit well. It will be the U.S., not Canada, which in future will be the price-setter for all our domestic farm products once the full objective of attaining a "level-playing field" has been accomplished.

We have heard much of the thousands of jobs that will be created by this agreement. Where are the definitive objective studies to support these claims?

We return to our opening comment - this proposed agreement represents a great deal more than a simple proposal to end tariffs on the movement of goods and services between our two countries.

In our view, this agreement represents a giant step toward economic integration with the United States - a move that the U.S. can hardly wait to accomplish.

In spite of Simon Reisman's efforts to intimidate critics of this proposed agreement by his Nazi-baiting comments, it was no less of a person than U.S. President Ronald Reagan, who, in his October 13 speech to the U.S. Chamber of Commerce stated:

> "If past is prologue, we know what the results will be. Almost two hundred years ago, trade barriers vanished in the United States' part of this continent after the new constitution took effect. Almost immediately a stagnant economy began to boom. The U.S.-Canada free trade agreement is a New Economic Constitution for North America. It will I believe inaugurate a similar continent-wide economic expansion."

We have not heard the Prime Minister disassociate himself from this statement.

It is the U.S. economy which is stagnant - not the Canadian economy. It is the U.S. which is the world's largest debtor nation - estimated to be in the range of $260 billion. It is U.S. economic policy that is primarily blamed for the largest slump in world stock markets ever recorded in a single day on October 19. It is the U.S. which continues to undercut world farm commodity prices in a desperate effort to expand its market share. It is the U.S. which is a nation in decline.

Critics of this agreement, as we freely admit we are, have been accused of looking inward. To the contrary, we believe Canada needs to look outward toward expanding trade with the rest of the world rather than vastly increasing our present trade dependence with the U.S. from the current 80% of total export trade to some figure nearer 100%.

Of particular fundamental concern is the agreement to provide non-discriminatory access by the United States to Canadian energy supplies. The provision of secure market access for Canadian energy exports to the U.S. is ludicrous when it is for something it desperately needs and in a situation where a non-renewal resource as important as oil and natural gas is concerned. In a time of short supply, we must, under the agreement, continue to share our dwindling reserves with the U.S. on a proportionate basis and at non-discriminatory prices.

In the area of financial services, "U.S. nationals and U.S.-controlled companies will receive treatment as favourable as persons of Canada with respect to the ability to purchase shares of Canadian-controlled financial institutions."

Canadian financial institutions are accorded similar rights in the U.S. as that accorded U.S. financial institutions.

The provisions on investment "provide each other's investors national treatment with respect to the establishment of new businesses, the acquisition of existing businesses, and the conduct, operation and sale of established businesses." Investment review by Canada will be phased out for the most part within the first 4 years. We anticipate this will include farmland and supercede any provincial laws on foreign ownership.

Is it economic integration? Will our sovereignty rights be affected? We believe the answer to both questions is an unequivocal "yes".

We find it extremely difficult to understand exactly what the U.S. has given up in this agreement that will be specifically beneficial to Canada. Large Canadian corporations and financial institutions will gain investment access to the U.S., however, it is questionable how that will be beneficial to this country. Corporations may wish to become U.S. citizens - but we do not.

We believe the future of our nation is at stake. We agree with those who believe this agreement should not be passed by the Parliament of Canada until the people of Canada have expressed their views through a national election. Nothing short of an election on this issue will be satisfactory.

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All of Which is Respectfully
Submitted by:

NATIONAL FARMERS UNION

national farmers union